Perfect Film & Chemical Corporation: 1968

The Growth of a Confiliate

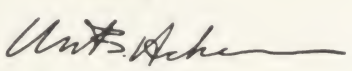
A public accountability report

This is a new type of corporate document. We call it a "Public Accountability Report." It goes beyond the conventional epistle to the stockholders that corporations put out each year. We intend this to be the frankest and most self-analytical of annual reports. The Year 1968 was an excellent one for us. Our Sales and earnings were the highest in a decade. The year's sales totalled $102,179,587–which represents a 109.7 percent increase over 1967. Net earnings climbed to $4,047,833,an increase of 60.8 percent over the record 1967 earnings.

We shall be documenting this for you, in the course of reporting on our financial and operational activities, farther along in these pages.

But, more important, our aim is to tell our stockholders as well as interested members of the general public about the long-range meaning of Perfect Film and Chemical Corporation. Also, to give you an accounting of our growth-and-development pattern–past, present and future–as we ourselves see it.

Sincerely,



MARTIN S. ACKERMAN,
PRESIDENT

The Confiliate and "The Pursuit of Leisure"

Everyone seems to be talking nowadays about "conglomerates" and the special problems that they are causing the American Economy. The basis of these problems being that there is no really *logical* reason for the various, included companies to be part of the multi-corporate whole—except for the profit motive, the power-drives of their various instigators and founding fathers, and the fact that they are held together only by an impersonal "cement" of administration and money.

All this, we all realize, can have an increasingly detrimental effect, by fuzzing over the operations and *meanings* of the nation's major corporations as well as causing them to lose whatever physical and economic symmetry they may once have had.

But, meanwhile, something new is happening in our economy that few people seem to realize.

There's a new corporate entity coming across the horizon. It is what might be called a "Confiliate."

A "Confiliate" is defined as a "specialized kind of diversified corporation whose included member-companies have a 'family' reason for being together." That is: there's an utter logicality to their linkage—having to do with markets, with operative areas, with manufacturing processes and products, with broad economic purposes that they *logically* have in common.

At present, there are relatively few, multi-part, U.S. corporations that can qualify as "confiliates."

Perhaps the nation's outstanding example of this emerging corporate entity, however, is Perfect Film and Chemical Corporation. Or, "PF&C," for short.

Essentially, this is so because all the various merger and acquisition activities of our seven years of existence have been marked by two consistent motives: first, obviously, the quest for profit opportunities; and, second, the logical dictates of a very discernible and disciplined growth-and-development pattern.

But, beyond this, PF&C is a very special kind of "confiliate." Because its discipline, its *raison d'être,* extends to a very systematic, long-range involvement with a special, burgeoning area of enterprise. This area is Leisure.

You can, in fact, say that PF&C is a confiliate that is engaged in "The Pursuit of Leisure."

For one thing, PF&C is concerned—in really meaningful depth—with what might be termed "the unregimented hours of Man." This, meaning the time that we spend away from our machines, our offices, our jobs. Away, if you like, from the encroachments of the Computer Age. Otherwise known as our "discretionary time"—free hours which Man can utilize as he sees fit. These oases of unregimented leisure for Man, we are assured by economists, sociologists as well as by qualified crystal-gazers of all types, will continue to broaden and flourish over the coming years.

In addition, PF&C is consistently and growingly concerned with the *instrumentalities* of leisure—the tangible and intangible things and ideas and devices—that Man uses and occupies himself with during this discretionary time.

Thus: "A Confiliate engaged in the Pursuit of Leisure."

You can see this same, consistent "Pursuit of Leisure" theme in the evolving pattern of all PF&C activities—past, present as well as those that promise for the future.

WILCOX

The Confiliate: Yesterday

You can probably best understand PF&C's growth-and-development pattern if you try to view all its operations in terms of a military campaign.

To start with, picture a geographical area—perhaps an island—named "Leisure" that is staked out for attack.

Three separate "beachheads" are established there. These, bearing the code-names: "Photo-Finishing," "Mail-Order" and "Publishing."

Over a seven-year period, these beachheads are systematically secured and built up, until they are full-scale, operational bases.

Also, all the actions, whether minor skirmishes or major battles, during these years, are entered into for the sole purposes of solidifying these bases, of expanding them until they cover more and more of the "Leisure" territorial area; and building up an ever-increasing infra-structure of roads and communications channels, of joint mechanisms and tactics, designed to mesh their operations and bring them into closer and more efficient working relationships with one another.

This, in every basic essence, is what our unique Perfect Film Confiliate's "Pursuit of Leisure" theme is all about.

Everything started back in November 1962, when Martin Ackerman, then a 29 year-old lawyer with a New York firm specializing in mergers and acquisitions, headed up a group that acquired controlling interest in Perfect Photo, Inc., a Philadelphia photo-finishing firm.

Reportedly, Perfect Photo was suffering at that time from "a massive case of corporate indigestion." In an attempt to set up a national photo-finishing company, its management had bought out, during the past year, some 19 small, regional, photo-service outfits all over the U.S.A. These operated through some 13,000 retail outlets, chalked up annual sales in excess of $20 million. But there was no tight central management; the regional branches all went their separate, often slipshod ways.

Ackerman had an incisive eye peeled to the main chance here. A native of Rochester, New York, brought up in the shadow of the Eastman Kodak plant, he saw the enticing profitabilities for an efficient national photo-servicing outfit that could operate on an intimate local level. He also saw the instrumentality that could make this possible: mail-order.

A few days ago, Ackerman sat back and in a somewhat stream-of-consciousness soliloquy, described his original thinking back in those early "launching-pad" days.

"One of the things that intrigued me initially about Perfect Photo," he said, "was that it was a service business involved with what I considered to be the fastest-growing segment of American business, which is 'leisure-time.' I would define this, very broadly, as 'what people do when they're not working.'

"I include in 'leisure-time,' reading. I include travel. I include taking some pictures. So, my feeling is that the industries you have to be in in this country, if you're talking about any kind of growth, are those industries in which people are going to have more time, more energy, more money to spend.

"Photography is really one of the fastest growing businesses in America—and I think the phase of it which is growing faster than almost any other part is the mail-order photo-finishing business, if it can be handled with courage and imagination. And, that's the phase, of course, that we are concentrating on.

"You know, you've got to understand that! When you sit in our processing plants and see what people are taking pictures of, it's fantastic! You look at Disneyland on the West Coast, you look at travel through the summer; you see that more and more people are taking pictures of all kinds of things. We've had the experience, for example, that the average person in 1962, when we started, took approximately three rolls of film per year. He's now up to ten-twelve rolls! The instamatic camera has brought a revolution to the photo-finishing business!

WILCOX

"So, we've always had this leisure area in mind. With, of course, a lot of give-and-take and trying-out and dropping things along the line, until a concept gradually emerged. But, in retrospect, you can almost say that in 1962, when we got into Perfect Photo, the concept was to expand our areas of diversification within the framework of the service content. Some competitors of ours went the other way; they went into pure photography, into retailing photographic products—photographic hard-goods. But we haven't done that. We have stayed as a pure *servicer.* And we've looked for our diversification in other ways—in publishing and mail-order. Which is very much within the leisure context, as we see it. Things which really have very little capital investment for dollar-sales—in which we don't have to manufacture anything. This is one of the things about publishing, frankly, that I love. What are you selling in publishing? You're selling service. You know, in Popular Library, the cost of the book is very little. You get one book that hits or two books that hit—and you're home! So, this concept of service within the framework of the leisure-time business is the area that we're committed to. But we're defining that leisure-time business—or 'Pursuit of Leisure' theme—very, very broadly. We're defining it in terms of the broad scope—everything that people do in their non-working hours."

Following the line of this basic thinking, you can see the intrinsic logicality of this unique Perfect Film Confiliate's growth pattern through the years. You can also see how each stage of this growth pattern was logically related to those preceding it.

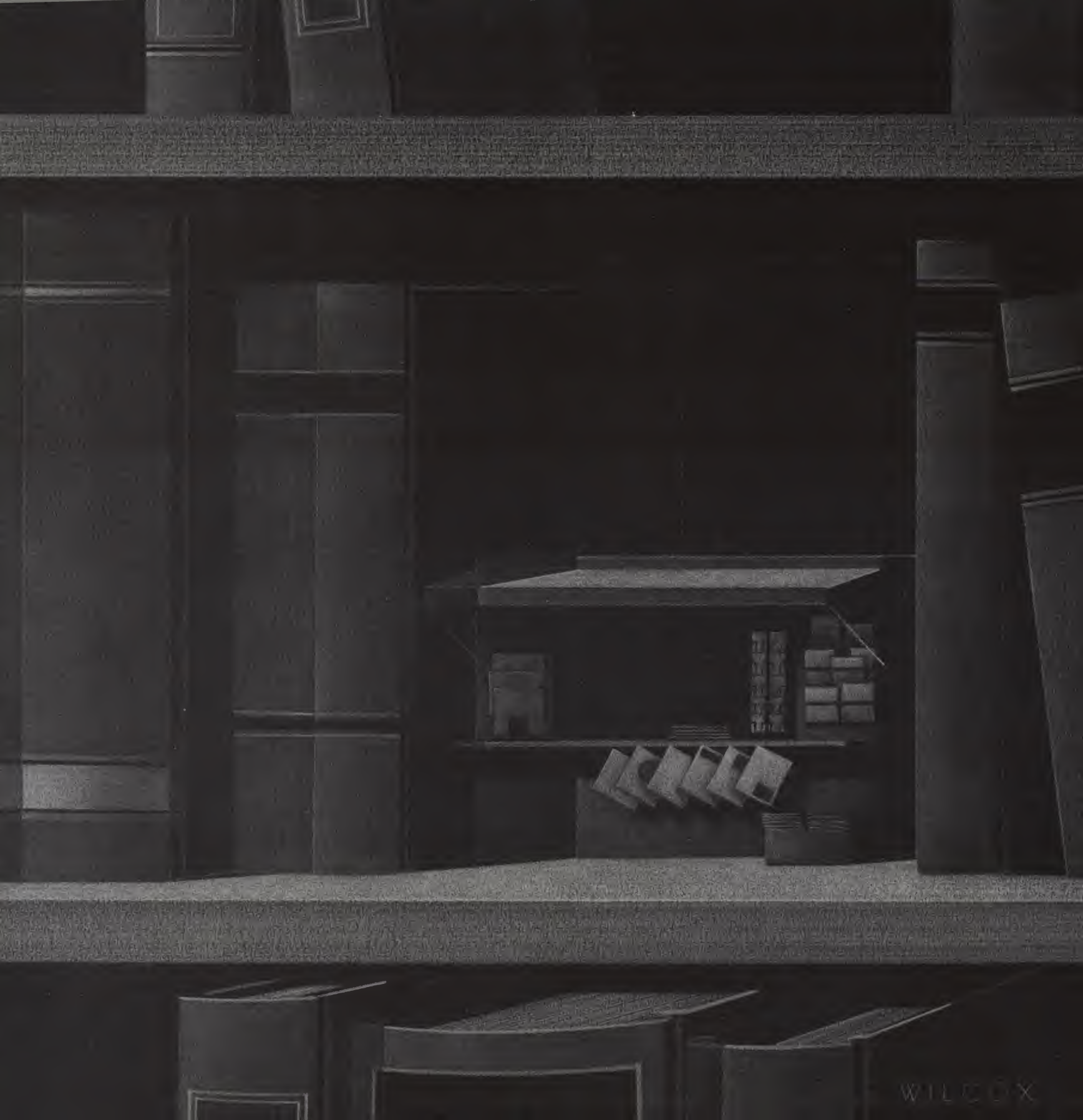
Stage number-one was acquiring Perfect Photo, which took some two years to get into trim, workmanlike shape: Moving people around, coordinating the operations of the 16 local plants, from Philadelphia to the Los Angeles exurbs; structuring the overall organization on a strict profit-and-loss basis—with systems of production, sales and profit goals, with statistical studies of customers, technical processes and plants; with a central information-disseminating source, and so on.

The need for stage number-two was obvious: To find more channels to the public. And, preferably, in so doing, to firm up the basic arteries and sinews for a real mail-order network. This was absolutely necessary if ascendancy in the highly-profit-promising, "local-national" photo-finishing field was to be gained.

In July 1965, an opportunity for a great leap forward presented itself. Ackerman was able to buy 20 percent of the outstanding shares in United Whelan Corporation. This—to stretch a metaphor—was like being able to purchase the visible portion of a benign, three-level iceberg.

Whelan owned 54 drugstores in seven Eastern states. But, perhaps more important (this being the sub-surface, second level of the "iceberg"), Whelan was used to acquire Hudson National, Inc. of New York, one of the nation's most successful mail-order drug houses. This was accomplished in November, with the purchase of 61 percent of Hudson's shares. Then, the "iceberg's" third level: Hudson, in turn, owned 69 percent of Equality Products, which provided the premium goods that could be used to bring in its mail-order customers.

Thus, the second stage in the budding confiliate's growth pattern: the careful stitching-in of a mail-order merchandising arm to the underlying fabric of a nation-wide, *local,* photo-finishing business.


WILCOX

This—perhaps unexpectedly—was accompanied by a most interesting peripheral growth that further enhanced the confiliate: The "merchandising arm"—namely, Hudson and its premium-supplying subsidiary, Equality Products—grew in its own right, while servicing its new parent company. "What happened," said Lavere Lund (who came in originally to head up the Whelan operation), with a small tone of wonder in his voice, "is that our merchandising arm is getting as big as our film business!"

By early 1967, United Whelan had disposed of its drugstores (though these were contracted-with as retail outlets for the film-finishing operations). Also, the name of the parent company was changed to "Perfect Film and Chemical Corporation."

Stage number-three in the growth pattern came in June 1967—again, dictated by opportunity and need. In order to enhance its merchandising still further and to reach greater numbers of potential film-customers, PF&C decided to extend its confiliatory operations over into the field of motion-picture advertising.

This consisted of acquiring 64 percent of the outstanding common stock of Motion Picture Advertising Company. As Mr. Ackerman points out, "Theatre advertising is an ideal media for PF&C. We paid less than a million dollars for the company, and two TV shows would cost you more than that; and this vehicle gives us coverage all over the U.S. Also, of course, we've always seen this as an up-and-coming media of its own. Motion picture advertising today is where TV was 15 years ago. And, the proof is that it's growing continuously. The business has mushroomed. Right now, we're doing over five million a year. And one of the biggest things that's happening is that as cigaret manufacturers are going off TV, they're coming into motion picture advertising."

Stage number-four in the PF&C Confiliate's growth-pattern was speeded up by a creative quest for new customers. During December 1967 and early January 1968, all the outstanding shares of Universal Producing Company were acquired. Universal, headquartered in Ohio, manufactures plastic and fabric premiums, many of which go to Equality Products. Ostensibly, this acquisition took place because PF&C wanted to assure itself of a supply of *manufactured* products, rather than being dependent upon imports or secondary-source purchases. This became a complementary business to Equality Products.

Stage Five provided an extension in a completely new—but, again, most logical—direction. This was publishing.

At the end of December 1967, PF&C acquired approximately 95 percent of the outstanding common stock of Popular Library. This is a large-scale publisher of some 21 magazines, mainly service-oriented, as well as pocket-sized, paperback editions of originally hardcover books. These latter are put out under various imprints, with some 750 separate titles available for sale on the date of acquisition.

Finally, stage six was a further, logical extension of PF&C's publishing beachhead. We acquired Magazine Management, Inc., as well as the Curtis Circulation Company. The latter, growing out of the Curtis Publishing Company affiliation that provided a good deal of publishing industry news over most of 1968.

After the smoke of verbal battle has cleared away, the basic result here will be to strengthen the publishing section of PF&C's operations and to clear the approaches to further, logical extensions of the "Pursuit of Leisure" theme.

The Confiliate: Today

The "Pursuit of Leisure" theme is apparent in all present-day operations of Perfect Film and Chemical.

You can see its manifestations everywhere. In our production lines, in our infra-structure, and on our drawing-boards.

Perhaps of most immediate importance to our stockholders: you can also see the dynamic manifestations of this confiliate's concern with Leisure in its broadest sense in our current fiscal situation and in the achievements of the year just past.

Herewith the highlights of 1968:

As we told you previously, 1968 was an excellent year for your company. Sales and earnings were the highest in a decade.

The year's sales totalled $102,179,587—a 109.7 percent increase over 1967.

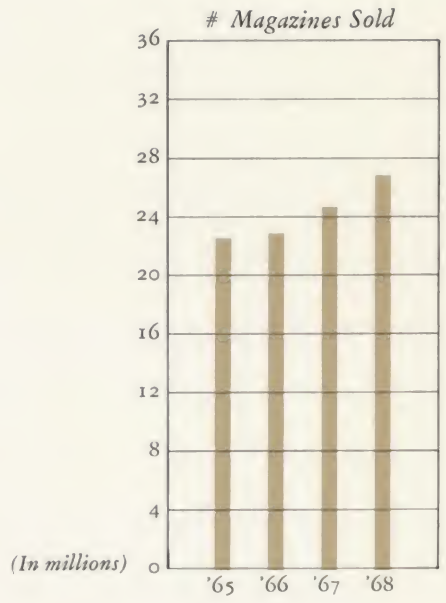
The year's net earnings climbed to $4,047,833. This, representing a 60.8 percent increase above the record 1967 earnings.

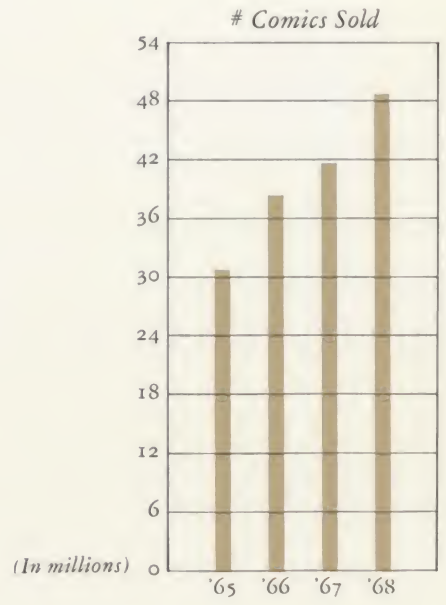
As additional road-markers of our growth: the 1968 annual sales level is four times that of 1965. And, our pre-tax earnings have multiplied almost three times since 1966.

Photography continues to be our major activity. More than half of today's sales come from the photo-finishing sector of the continuously growing photography market.

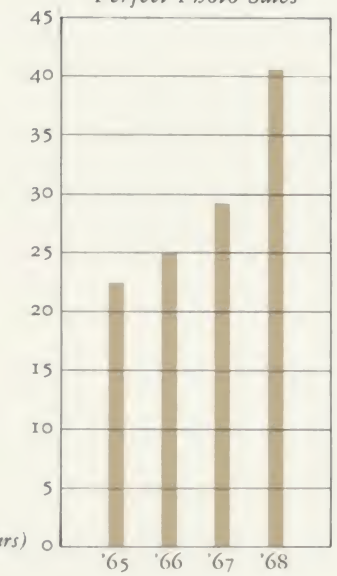
Our major expansion in 1968 in this area came from our purchase of the United Film Club, the leading mail-order photo-finisher in the United States. As of this moment, our photo-finishing sales are almost evenly divided between direct sales to the consumer and sales through retail stores. Our analyses of marketing and other factors indicate that both these areas will be expanding significantly in the coming years.

Publishing became a sector of aggressive enterprise for your company. One in which we became irrevocably committed during 1968. Also, one in which it is perhaps the understatement-of-the-year to say our activities created a degree of industry-wide excitement.



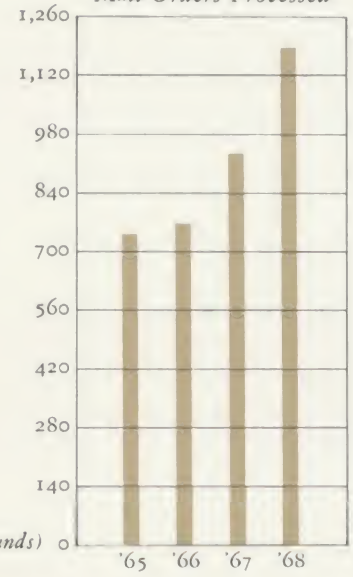


Perfect Photo Sales



(In millions of dollars)

Mail Orders Processed



(In thousands)

Quite obviously, from all we've said in the previous pages, we consider reading for pleasure and education a most enticing and profitable growth area. Starting with our Popular Library book division in 1966, we have moved into magazines and entertainment and information publications of all types through our Magazine Management Company, into distribution of magazines and books through The Curtis Circulation Company.

We expect to continue to be a source of publishing industry-wide excitement in the years to come.

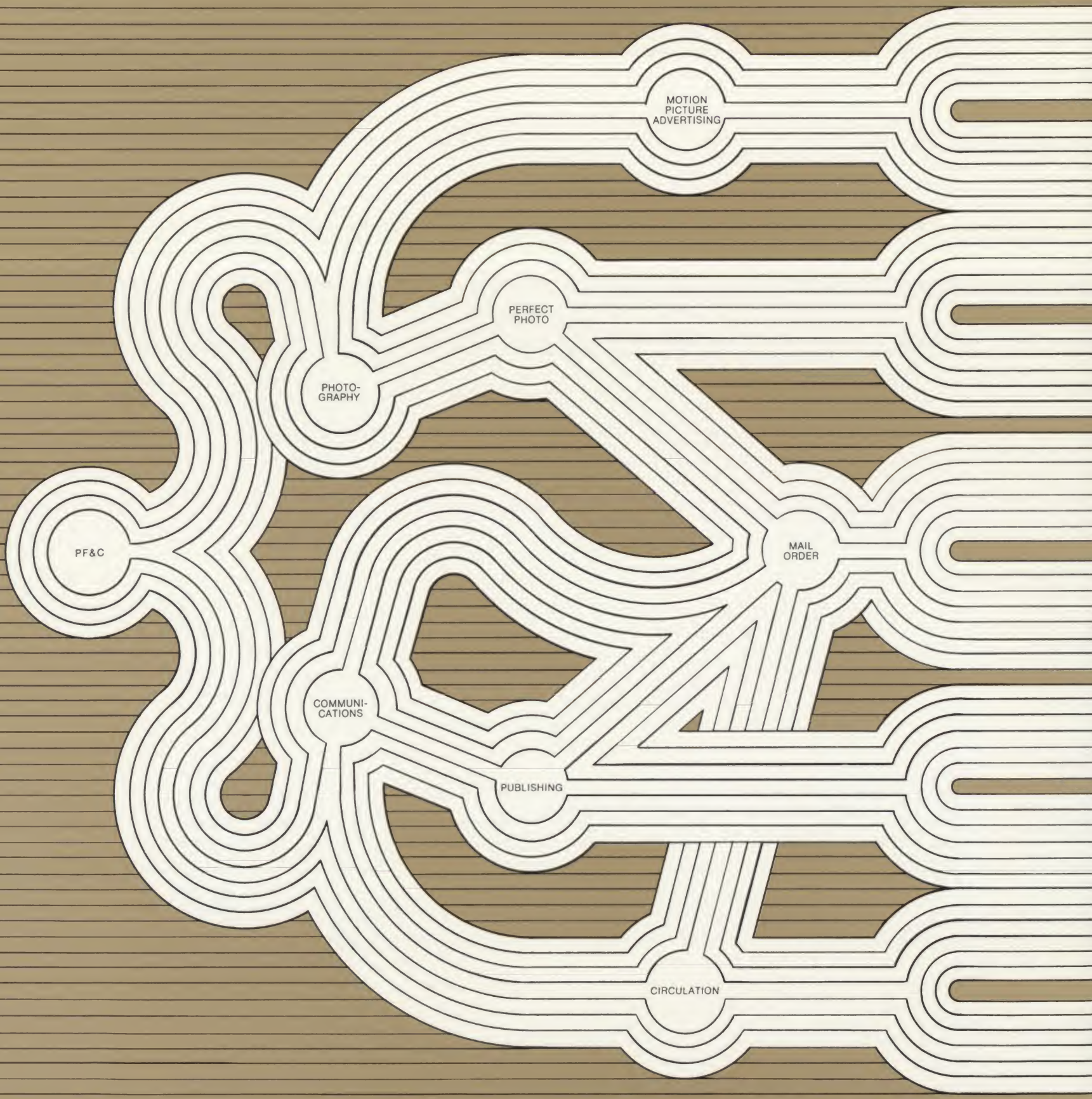
Mail-order continues as the third, expanding, major sector for your company. In keeping with our "confiliate" philosophy, all our mail-order enterprises continue to bear strong "family" connotations with one another.

With our stress on service to users and consumers, all our activities in this sector—from the Hudson Catalog to the Lyons Music Catalog for schools and colleges—achieved profitable progress during the year. In addition—since they are of a purposeful, cash-and-carry type, these activities help put your company into a strong working-capital position.

In December 1968, we purchased approximately 50.5 percent of the outstanding common stock of Plume & Atwood Industries, Inc., a company engaged in operating a brass mill in Thomaston, Conn., and a chain of movie theaters in the Boston area. In addition, Plume & Atwood, under our guidance has since purchased Gold Star Sales, Ltd., a Canadian company operating in the sales-incentive field.

Results of these operations, added to those of Plume & Atwood for 1968, should produce a very exciting year in 1969.

In these next pages, we shall show you how these 1968 highlights fit in with the dramatic overall growth of PF&C and with the flow of activities among the various members of the confiliate.


MOTION PICTURE ADVERTISING
PERFECT PHOTO
PHOTO-GRAPHY
PF&C
MAIL ORDER
COMMUNI-CATIONS
PUBLISHING
CIRCULATION

The Confiliate: Tomorrow

A "confiliate"—as we see it—is a continuously evolving and developing entity. Not only in terms of newer acquisitions and mergers or alliances among the component companies, but in continuous refinement of the inter-relationships among these components. In a sense: a process of furthering what we referred to previously as the "logicality of the linkage" among the various family members of this new type of multi-corporate structure.

As part of this evolutionary developmental process, PF&C is regrouping our divisional breakdown.

In place of last year's breakdown into five separate divisions, based largely on function, we are presently regrouped into two main divisions, based much more on scope and areas of involvement.

These are: Photography and Communications.

"Photography" would seem an interim breakdown—including as it does all photo-finishing and film advertising operations.

"Communications," however, is much more a portent of our future since it includes our growing involvement with the various methods and instrumentalities of man communicating with his fellow.

Grouping mail-order—with all its various consumer-products activities—under "Communications" may seem unusual.

We feel, however, that the *servicing* aspects of the mail-order members of the confiliate are much more important, in terms of present and future developments, than are the production aspects—no matter how lucrative these latter might be.

Large corporations have a viability of their own, a continuing corporate personality that is impersonally independent of the human personalities involved with them—the people who originate them, who administer them, who guide their destinies during specific periods of their histories, who make their most crucial decisions.

In a very real sense, you can say that the life meaning of a corporation, its continuing personality, is determined almost altogether by its direction of growth—or, what we have referred to in these pages as its "growth-and-development pattern."

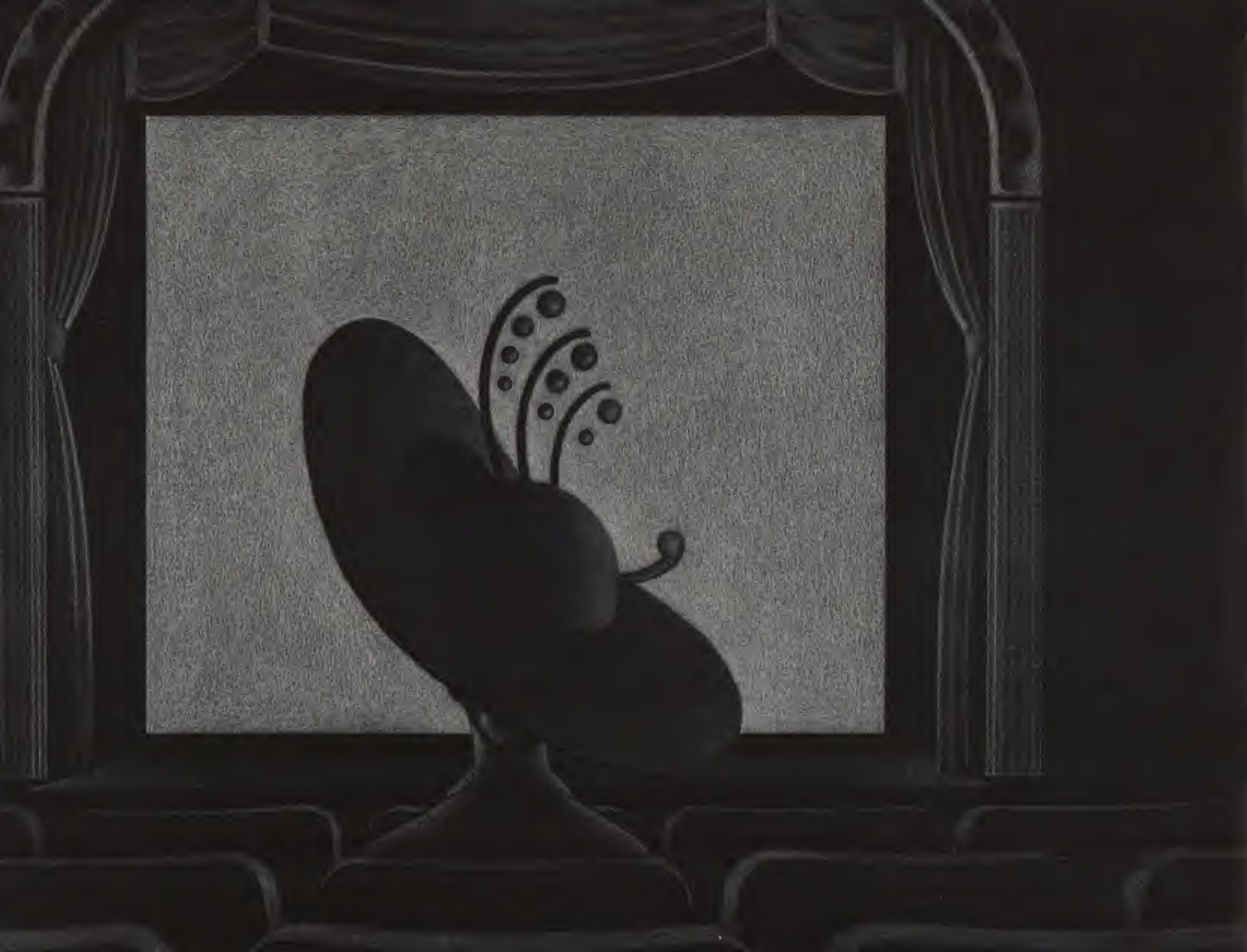
This holds even more truth for a confiliate such as PF&C—a multi-part corporation with a logicality of family ties among its various members.

No one can see this more clearly, perhaps, than Founding Father Martin S. Ackerman, who was this confiliate's president throughout 1968, the year covered by this report.

PF&C's future, Ackerman says, is prescribed by its past and present.

"But you don't have to be a clairvoyant to figure that out," he admits. "About *any* company. But, let's go on. Let's think about this concept of 'service within the framework of leisure-time,' that I mentioned previously. This constant 'Pursuit of Leisure,' you'd call it.

"But, remember, we're defining this leisure-time business in terms of its broad scope—and that opens up an awful large part of the world of the future to us! Because we know that people's leisure-time is increasing. It's increasing constantly, and almost geometrically, because of computers, because of new techniques. The figures are projected that by 1980—just eleven years from now—the average American citizen will be on an approximately 20-hour week. That's 20 hours a *week!* And, think what that will mean to those of us who are committed to leisure-oriented businesses.



"What do I see for the immediate future? Well, a lot more of the same—a lot more of what we're doing and accomplishing right now. A lot more 'Pursuing of Leisure.' The concept, right now, as I look at it, is that we're in four major areas-of-interest: We have this very broad-based photo-finishing, we have publishing, we have mail order, and we have what we call 'consumer products and services.'

"Now, these areas all inter-relate! That is, we have made them inter-relate. For example, we describe mail order as being 'mail-order.' But, mail order is also 'photo-finishing.' We describe mail order as being 'mail-order'—but mail order is also 'publishing'. Because one of the things up for consideration by PF&C this year is a mail-order book club.

"So, my point is, you've got to develop component parts within the frameworks of these four interest-areas. You might call that our 'immedate Pursuit of Leisure.' For another example—let's take publishing. The talent at Popular Library working towards putting out softcover books—that talent must be extended to other areas. How? Other publishing areas. It can be entertainment, it can be education. The possibilities are limited only by application and the talent itself.

"And, when we talk about publications, we're not thinking only of traditionally leisure-oriented publications. We're looking at leisure in its broadest scope. That is, what people do when they're not working. The mere fact of people reading is one leisure activity that is often connected with other leisure activities. For example, we think that people are interested in fixing automobiles. So, I think that a fast-developing field you might find us going into is the 'How-To' book. Then, astrology is another area we are certain to move into very heavily. We've developed one of the finest lines of astrology books. And, we could conceivably move into what I call 'computerized astrology clubs.' In which the magazines become the source for carrying the messages for those people who are interested in astrology, who become members of the astrology clubs.

"And, beyond this, of course, there's the *long-range* future. That's where you get to our '*long-range* Pursuit of Leisure.' Because we consider that we'll always be adhering to that basic theme, but, of course, utilizing all those new, so-called 'Twenty-First Century' techniques that are still on the dreamy end of somebody's drawing-board! We're talking here about the brave new communications techniques of the future. Because, quite obviously, we are heading into the entire basic area of 'Twenty-First Century' Communications techniques.

"You talk about PF&C's interest in 'unregimented Man' utilizing his leisure hours? Well —how about 'unregimented Man' *communicating?* Since, after all, communications among people, in its very basic sense, means Man using his free time to make contact with his fellow Man.

"That, quite obviously, is where this confiliate is going. Along with a lot of other companies. We're not afraid, though, about our ability to compete with them. Any of them. Because, we've got a built-in advantage over most growing corporations. We know the *direction* of our growth. And, we've planned the pattern of our growth. That's where that word 'confiliate' comes from. And, that's where PF&C is ahead of the pack."

Perfect Film & Chemical Corporation	*1615 Northern Boulevard* *Manhasset, N. Y.*

Board of Directors

Martin S. Ackerman, *Chairman*
William G. Hobbs, Jr.
Alan S. Salny
Lester B. Samit
Samuel Shapiro
Charles Zohlman

Officers

Martin S. Ackerman,	*President*
Charles Zohlman,	*Vice President*
Lester B. Samit,	*Vice President*
Harold Richards,	*Vice President*
Marvin S. Chanko,	*Treasurer & Controller*
Samuel Shapiro,	*Secretary*

Confiliates

Curtis Circulation Company	*641 Lexington Avenue* *New York, N. Y.*
Equality Products, Inc.	*350 Fifth Avenue* *New York, N. Y.*
Lyons Band Instrument Company	*688 Industrial Drive* *Elmhurst, Ill.*
Magazine Management Company	*625 Madison Avenue* *New York, N. Y.*
Mail Order Divisions	*89 Seventh Ave.* *New York, N. Y.* *Hudson National, Inc.* *Bencone, Inc.* *Hudson Central Drug Co., Inc.* *U. S. Pencil Company*
Motion Picture Advertising Corporation	*1615 Northern Boulevard* *Manhasset, N. Y.*
Perfect Photo, Inc.	*East—4747 N. Broad Street* *Philadelphia, Pa.* *West—1810 W. Pico Boulevard* *Los Angeles, California*
Perfect Subscription Co.	*Independence Square* *Philadelphia, Pa.*
Plume and Atwood	*Thomaston, Conn.*
Popular Library, Inc.	*355 Lexington Ave.* *New York, N. Y.*
Studer's, Inc.	*426 Elm Street* *San Antonio, Texas* *330 Pine Avenue* *Long Beach, California*
Universal Producing Company	*Box 400* *Fairfield, Iowa*

Martin S. Ackerman, *President, PF&C*

Javen G. Lund, *Asst. to Pres., PF&C*

Marvin S. Chanko, *Treasurer & Controller, PF&C*

Richard N. Brigden, *Director Budget, Systems & Control, PF&C*

Lester B. Samit, *Vice President, PF&C*

Samuel Shapiro, *Secretary, PF&C*

Charles Zohlman, *Vice President, PF&C*

Harold Richards, *President, Equality Products, Inc.*

Frank Lundi, *Assistant to President, PF&C publishers*

Seymour Spiegel, *Chairman & President, Perfect Subscription Co.*

Robert S. Goldfield, *President, Perfect Photo Exit*

Leonard S. Schwartz, *President, Mail Order Divisions*

Martin Goodman, *President, Magazine Management Company*

Joseph L. Johnson, *President, Popular Library, Inc.*

William Geiger, *President, Perfect Photo, Wash.*

G. B. McCombs, *Chairman, Curtis Circulation Co.*

Director: Frank Zachary
Graphics: Hess and/or Antopir
Paintings: David Wilcox
Text: Paul E. Deutschman

Auditors' Report

Board of Directors,
Perfect Film & Chemical Corporation
Manhasset, New York.

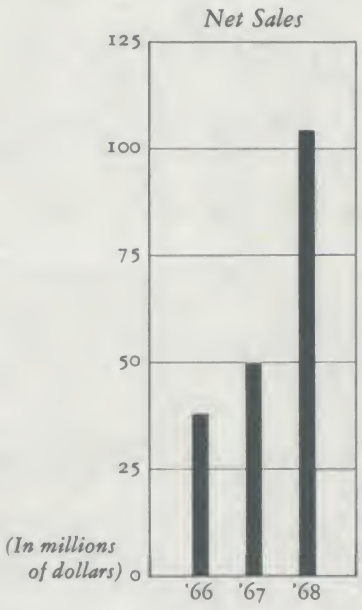
We have examined the accompanying consolidated balance sheet of Perfect Film & Chemical Corporation and subsidiaries as of December 31, 1968, and the related consolidated statements of net income and retained earnings and of source and application of funds for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. It was not practicable to confirm certain amounts receivable from retail operations, but we satisfied ourselves as to such amounts by means of other auditing procedures. The financial statements of the 50.6%-owned subsidiaries included in the accompanying statements were examined by other independent accountants, whose reports thereon were furnished to us.

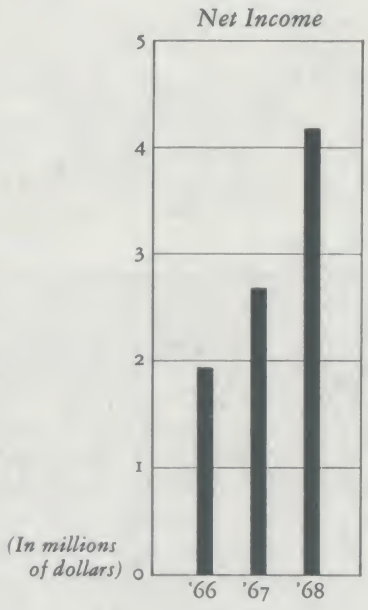
In our opinion based on our examination and the reports of other independent accountants, the financial statements referred to above present fairly the consolidated financial position of Perfect Film & Chemical Corporation and subsidiaries at December 31, 1968, and the results of their operations and source and application of funds for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

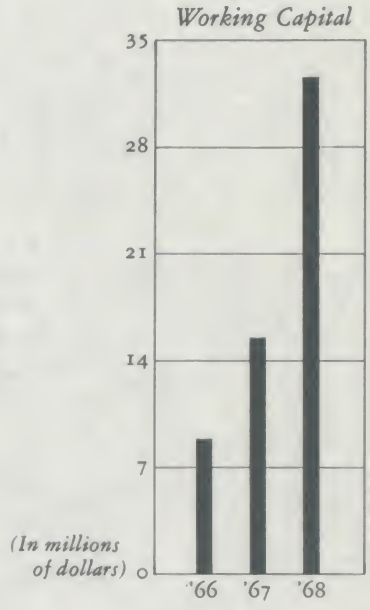
TOUCHE, ROSS, BAILEY & SMART
Certified Public Accountants.

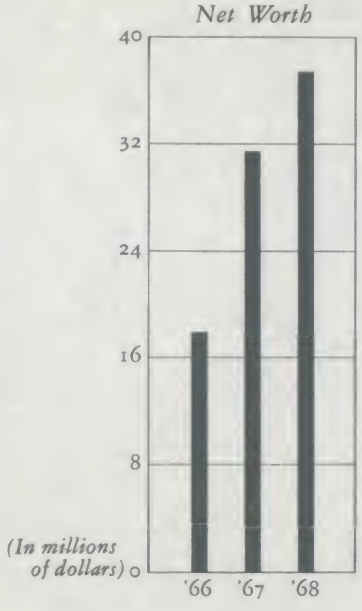
March 5, 1969
(April 2, 1969 as to Note 10)

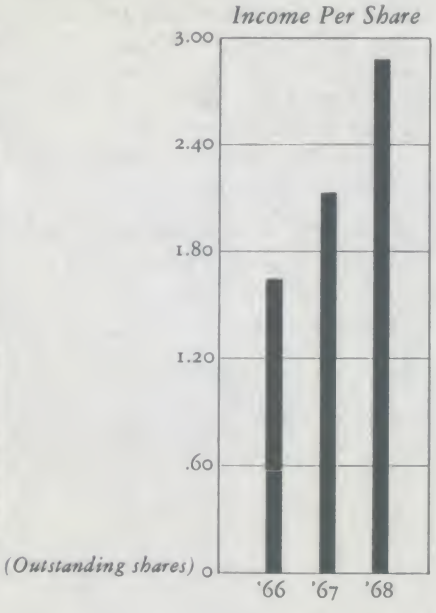
(April 2, 1969 as to Note 10)

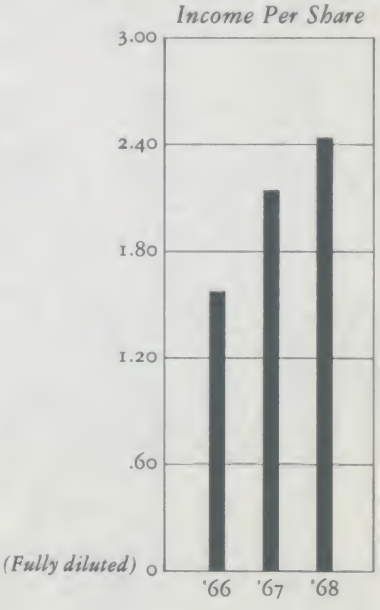

Net Sales
125
100
75
50
25
(In millions of dollars)
0
'66
'67
'68


Net Income
5
4
3
2
1
(In millions of dollars)
0
'66
'67
'68


Working Capital
35
28
21
14
7
(In millions of dollars)
0
'66
'67
'68


Net Worth
40
32
24
16
8
(In millions of dollars)
0
'66
'67
'68


Income Per Share
3.00
2.40
1.80
1.20
.60
(Outstanding shares)
0
'66
'67
'68


Income Per Share
3.00
2.40
1.80
1.20
.60
(Fully diluted)
0
'66
'67
'68

Perfect Film & Chemical Corporation

Statement of Consolidated Net Income and Retained Earnings

Year ended December 31,	1968	1967
Sales and revenues	$102,179,587	$48,697,146
Cost of sales, excluding depreciation	59,820,314	30,137,487
	$ 42,359,273	$18,559,659
Selling, general and administrative expenses, excluding depreciation	$ 29,881,065	$13,478,364
Depreciation, straight line method	1,745,549	1,274,610
Interest	2,698,540	999,085
	$ 34,325,154	$15,752,059
	$ 8,034,119	$ 2,807,600
Earnings (loss) from professional processing operations (Note 2)	(1,138,053)	461,079
Income before income taxes and extraordinary items	$ 6,896,066	$ 3,268,679
Federal, state and local income taxes (Note 3)	2,690,700	1,561,000
Income before minority interests and extraordinary items	$ 4,205,366	$ 1,707,679
Minority interests in earnings of subsidiaries	157,533	—
	$ 4,047,833	$ 1,707,679
Extraordinary items:		
Federal income tax carryforward credits	$ —	$ 960,000
Loss on disposition of Whelan Drug Stores, less income taxes of $160,000	—	156,852
Total extraordinary items ($.67 per share)	$ —	$ 803,148
Net income	$ 4,047,833	$ 2,510,827
Per common share—on average number of shares outstanding	$2.82	$2.05
—fully diluted (Note 6C)	$2.39	$1.99
Retained Earnings—beginning of year	$ 7,033,342	$ 4,991,829
Add net income	4,047,833	2,510,827
	$ 11,081,175	$ 7,502,656
Deduct:		
3% common stock dividend—fair market value	$ —	$ 454,782
Dividends on $3.50 cumulative preferred stock	171,848	14,532
	$ 171,848	$ 469,314
Retained Earnings—end of year	$ 10,909,327	$ 7,033,342

See notes to financial statements.

Perfect Film & Chemical Corporation

Consolidated Balance Sheet

Assets — December 31,	1968	1967
Current assets:		
Cash and certificates of deposit	$ 13,384,863	$ 4,483,860
Marketable securities at cost, which approximates market	1,113,470	—
Accounts and notes receivable (Note 1)	30,583,560	13,311,234
Equity in assets obtained in loan receivable foreclosure (Note 8)	5,471,559	—
Inventories, at cost (first-in, first-out) or market, whichever is lower—mostly merchandise held for resale	20,910,741	10,251,248
Advances for commissions and royalties	1,791,340	1,118,327
Prepaid advertising expense	1,681,863	—
Other prepaid expenses	1,449,117	782,098
Total current assets	$ 76,386,513	$29,946,767
Notes receivable, due after one year (Note 1)	8,528,993	286,793
Investments at cost	1,573,417	705,226
Property and equipment, at cost (Note 4):		
Land	$ 1,130,652	$ 518,859
Buildings and building improvements	5,523,135	4,807,134
Machinery, furniture, fixtures and transportation equipment	26,736,416	16,264,934
Leasehold improvements	2,854,494	3,774,281
Culver studio property	8,818,000	—
	$ 45,062,697	$25,365,208
Less accumulated depreciation	14,674,984	7,415,584
	$ 30,387,713	$17,949,624
Excess of cost over net tangible assets of businesses acquired (Note 2)	$ 62,289,638	$17,645,478
Deferred debt discount and expense	1,073,536	832,129
Other assets	889,837	797,455
	$181,129,647	$68,163,472

See notes to financial statements.

Perfect Film & Chemical Corporation

Consolidated Balance Sheet

Liabilities and Shareholders' Equity — December 31,	1968	1967
Current liabilities:		
Notes payable to banks (Note 4)	$ 4,000,000	$ —
Trade accounts and notes payable	21,202,907	9,601,248
Accrued expenses	11,944,436	3,438,504
Federal income taxes (Note 3)	3,356,963	288,940
Current portion of long-term debt	4,261,717	2,181,310
Total current liabilities	$ 44,766,023	$15,510,002
Deferred income	3,181,578	324,413
Deferred income taxes (Note 3)	2,662,552	2,299,740
Minority interest in subsidiaries	4,927,895	319,312
Long-term debt, due after one year (Note 4)	20,220,894	15,755,201
Notes convertible into equity securities (Note 5)	67,658,000	2,705,000
Shareholders' equity (Notes 4, 5, 6 and 7):		
Convertible $3.50 cumulative preferred stock, $50 par value; authorized 295,000 shares; 49,350 and 49,402 shares issued (convertible approximately share-for-share for common stock)	$ 2,467,500	$ 4,940,200
Common stock, $1.20 par value; authorized 6,000,000 shares, 1,410,323 and 1,348,656 shares issued	1,692,387	1,618,387
Other capital paid in	22,660,574	17,674,958
Retained earnings	10,909,327	7,033,342
	$ 37,729,788	$31,266,887
In treasury, at cost—242 shares of preferred stock	17,083	17,083
	$ 37,712,705	$31,249,804
Contingent liabilities and leases (Notes 7 & 9)	—	—
	$181,129,647	$68,163,472

See notes to financial statements.

Perfect Film & Chemical Corporation

Statement of Source and Application of Funds

	Year ended December 31, 1968
Source	
Net income	$ 4,047,833
Depreciation	1,745,549
Sale of 5% convertible subordinated notes	51,250,000
Sale of convertible notes by Plume & Atwood	15,000,000
Increase in other long-term debt	4,465,693
Current portion of proceeds of sale of professional division less current assets sold	1,897,000
Minority interest in companies acquired	4,927,895
Increase in deferred income	2,857,165
Other—net	3,187,388
	$89,378,523
Application	
Excess of cost over net tangible assets of businesses acquired in 1968	$45,876,999
Additions to property and equipment (including property and equipment of businesses acquired during 1968 of $8,158,512, net of accumulated depreciation)	26,317,799
Increase in working capital	17,183,725
	$89,378,523

December 31,	1968	1967
(1) Accounts and notes receivable comprise:		
Due within one year:		
Trade receivables	$29,115,959	$14,425,792
Subscription receivable for 5% convertible subordinated notes	2,000,000	—
Due from Berkey Photo, Inc. (Note 2)	1,897,000	—
Due from The Saturday Evening Post Company	352,000	—
Notes receivable for stock sold under Employees' Stock Purchase Plans	30,000	100,459
Advances to employees	90,305	33,057
Other	223,296	587,705
	$33,708,560	$15,147,013
Allowance for uncollectible amounts	3,125,000	1,835,779
	$30,583,560	$13,311,234
Due after one year:		
Due from Berkey Photo, Inc. (Note 2)	$ 8,275,069	$ —
Notes receivable for stock sold under Employees' Stock Purchase Plans	253,924	249,909
Other	—	36,884
	$ 8,528,993	$ 286,793

(2) The excess of cost over net tangible assets of businesses acquired is as follows:

	December 31, 1968	December 31, 1967
Photographic operations	$17,519,665	$ 6,770,466
Professional photographic operations sold in 1968	—	1,989,269
Mail order and consumer products	9,219,833	4,786,686
Publishing	12,678,035	3,957,062
Circulation and subscription companies	3,993,747	—
Plume & Atwood Industries, Inc.	18,586,154	—
Other	292,204	141,995
	$62,289,638	$17,645,478

In the opinion of management there is no present indication that the intangible assets have a limited or readily determinable life and, in accordance with generally accepted accounting principles, no amortization is contemplated at this time. If at any time in the future it becomes reasonably evident that these intangibles have a limited existence, the cost of such intangibles will be written off by amortization or otherwise as appropriate. The excess of cost over net tangible assets acquired for businesses purchased is subject to the final determination of the value of such net assets. The operations of businesses purchased or disposed of are included in the financial statements for the period of operation by the Company.

During 1968, the Company acquired the businesses of the following companies:

	Month Acquired	*Cost including expenses*	*Excess of cost over net tangible assets*
Curtis circulation and subscription companies	May	$12,664,222	$ 3,993,747
U. S. Pencil Company	June	6,145,004	4,337,619
Magazine Management Co., Inc. and related companies	June	9,298,097	8,323,610
United Film Club, Inc.	July	10,799,090	9,673,690
Plume & Atwood Industries, Inc. (including Gold Star Sales Limited acquired as described below)	November	25,818,379	18,586,154
Other		1,235,423	962,179

Substantially all of the outstanding stock of the above businesses were acquired by Perfect for cash except that 45% of the capital stock of Plume & Atwood Industries, Inc. was acquired for cash and notes aggregating $15,200,000 and 5.6% of the capital stock as described in Note 6. On January 9, 1969, Plume & Atwood acquired Gold Star Sales Limited for $10,100,000 cash. The balance sheet accounts of Gold Star are consolidated in the accompanying statement.

The business of the circulation and subscription subsidiaries of The Curtis Publishing Company (Note 8) was acquired for a price to be equal to the fair market value of such business transferred, which fair value is to be determined by Standard Research Consultants Incorporated, a subsidiary of Standard & Poor's Corporation, as independent appraisers. The consideration paid by the Company, subject to adjustment, was $12,500,000 principal amount of the Company's 5% Convertible Subordinated Notes, which notes were subsequently repurchased for cash by Perfect and re-sold at no gain or loss. As part of the purchase agreement, Curtis has guaranteed that for a period of ten years it would reimburse the Company for the amount by which the annual earnings, before income taxes, of the circulation and subscription companies was less than $2,000,000.

In September, 1968, the Company sold to Berkey Photo, Inc. the inventories, property, equipment, and intangible assets of its professional film processing operations for $847,000 cash and $10,172,000 notes receivable, which approximated the carrying value of the assets. The purchase price is subject to adjustment based on the final determination of such carrying value. The notes are payable quarterly over ten years with interest of ½% over the prime rate. The net income or loss of the operations sold, before allocation of home office overhead expenses, is shown separately in the statement of consolidated net income. The statement of the prior year has been restated to be comparable.

(3) The provision for income taxes for 1968 has been reduced by $300,000 representing deferred income tax balances no longer required as a result of Internal Revenue Service settlements in 1968. The benefit of tax loss carryforwards of approximately $960,000 shown as extraordinary credits to income in 1967, were used to reduce the provision for federal income taxes in last year's report, in accordance with accounting rules then in effect. The tax provisions include $240,000 and $200,000 of state and local income taxes and are net of investment credits of $680,000 and $80,000 for 1968 and 1967, respectively. The 1968 investment credits include those generated in prior years of approximately $360,000.

Deferred income taxes result primarily from accelerated depreciation and include state and local taxes of $300,000. The income tax provisions include deferred taxes of $600,000 and $100,000 for 1968 and 1967 respectively.

(4) The Company has a line of credit expiring December 30, 1969 with two banks, under which it can borrow up to $15,700,000 at 1% in excess of the prime interest rate. The loan agreement contains restrictions as to working capital, indebtedness, interest and dividends. At December 31, 1968, there was $4,000,000 outstanding under this agreement.

The long-term debt due after one year is as follows:

	December 31, 1968	December 31, 1967
6⅞% senior note, due December 31, 1970	$ 5,000,000	$ —
6% notes to insurance companies, due $400,000 annually starting 1972	4,000,000	4,000,000
6½% ten year mortgage on Culver property	3,738,000	—
Bank note collateralized by airplane, interest at ½% over prime rate, due $135,714 annually to 1975	821,428	—
Notes to banks prepaid during 1968	—	7,407,703
Amounts due for acquisitions, payable in varying amounts to 1985	3,363,279	1,963,697
Estimated losses on leases not used in operations	942,349	919,172
Other indebtedness	2,355,838	1,464,629
	$20,220,894	$15,755,201

The amended agreements for the insurance companies loans require, among other things, that the Company shall not pay cash dividends or acquire equity investments after December 31, 1967, which, combined, would exceed 25% of its net income after December 31, 1967. As of December 31, 1968, retained earnings of approximately $840,000 were available for dividends.

(5) Notes convertible into equity securities:

	December 31, 1968
5% Convertible subordinated notes, due 1988	$51,250,000(a)
5½% Convertible subordinated debentures, due 1979	1,408,000(b)
Notes of Plume & Atwood Industries, Inc. (a subsidiary):	
6% Subordinated notes, convertible into Plume & Atwood stock, due 1988.	10,000,000(c)
6¾% Senior notes, convertible into Plume & Atwood or Perfect stock, due $500,000 annually from 1974	5,000,000(c)
	$67,658,000

(a) Of the $51,250,000 of 5% convertible subordinated notes sold in 1968, $28,500,000 are convertible into common shares at $53 per share and $22,750,000 at $64.00 per share. The notes contain no restrictive covenants, require no sinking fund payments and may be prepaid at any time by the Company.

(b) At December 31, 1968 the conversion ratio (which is subject to antidilution adjustment) of the 5½% convertible subordinated debentures was 21.77 shares of common stock for each $1,000 debenture. The indenture provides that on October 1, 1969 and annually thereafter to 1979, the Company will retire $225,000 principal amount of the debentures. As of December 31, 1968, Perfect had $1,967,000 face amount of the debentures which could be used to meet future sinking fund requirements.

(c) The 6¾% notes are convertible into common shares of Plume & Atwood at $40 per share. The 6% notes are convertible into common shares of Plume & Atwood at $33 per share or may be sold to Perfect for its common stock at $70 per share until December 25, 1970 and at the lower of the prior 30-day average market value of Perfect common stock, or $70 from December 26, 1970 to December 31, 1970. If such conversions were made into Plume & Atwood's stock, Perfect's ownership would decrease from 50.6% to 33%.

(6) A. The changes during 1968 in common stock and other capital paid in were as follows:

	Outstanding shares of common	Other capital paid in
Balance—beginning of year	1,348,656	$17,674,958
Conversion of convertible debentures	28,247	1,216,243
Exercise of warrants issued by Perfect Photo, Inc.	15,960	204,288
Issued in payment of costs of acquisition and disposition of subsidiaries	7,000	403,600
Conversion of preferred stock	52	2,475
Issued for minority interest in Motion Pictures Advertising, Inc.	4,408	243,807
Issued for placement of convertible notes of The Saturday Evening Post Company (1)	6,000	344,800
Value assigned to various warrants issued	—	243,730
Credit resulting from decrease in par value of preferred stock	—	2,470,100
	1,410,323	$22,804,001
Registration and other costs	—	143,427
Balance—end of year	1,410,323	$22,660,574

B. Common shares were reserved as follows:

	December 31, 1968
Conversion of preferred stock	49,233
Conversion of 5½% subordinated debentures (Note 5b)	30,637
Warrants issued to Pathe Laboratories, Inc. (2)	209,220
Stock options: $18 per share	1,140
$60 per share	10,000
Warrants exercisable: At $48 until September, 1969	10,000
At $70 until December, 1970	33,000
At $53 until December, 1970	25,000
At $14 until August, 1981	26,601
Conversion of 5% subordinated notes (Note 5a)	893,205
Noteholders of The Saturday Evening Post Company and Plume & Atwood Industries, Inc. (3)	296,703
	1,584,739

C. Fully diluted earnings per share have been computed assuming exercise of all convertible securities, options and warrants and use of proceeds to reduce debt and applicable interest, less applicable income taxes.

D. The liquidation value of the preferred stock is $100 per share.

(1) The Company issued 6,000 shares of its common stock in payment for the placement of $10,000,000 of convertible notes of The Saturday Evening Post Company (SEP).

(2) Exercisable at the lower of $48 or the market price of Perfect stock if and when distributed to Pathe Industries, Inc. shareholders. The warrants expire on December 31, 1969.

(3) During the year, the Company granted to the purchasers of convertible debentures of two affiliates (Plume & Atwood Industries, Inc. (P&A)—Note 5 and The Saturday Evening Post Company, (SEP)—Note 8) the right to sell such debentures to the Company for common shares. In consideration for the granting of the option relating to SEP, which at present has 200,000 shares outstanding, the Company received an option to acquire up to 410,000 shares of SEP for $50 per share payable in cash, Perfect stock or SEP notes. In connection with the granting of the option relating to P&A, 5.6% of the outstanding shares of P&A, which previously were contingent on the future earnings of a P&A subsidiary, were received by Perfect. (Note 2)

(7) A. The Company at December 31, 1968, had 99 leases on real property being utilized which expire at various dates to 1992. Under such leases annual rentals are approximately as follows: 1969-1970, $1,200,-000; 1971-1973, $800,000; 1974-1978, $400,000; 1979-1992, $200,000.

B. 45,000 shares of preferred stock are held by a subsidiary of Pathe Industries, Inc. which can require Perfect to purchase 2,000 shares per year at $100 per share starting in 1973, or earlier under certain circumstances.

C. The Company gave a $1,800,000 letter of credit, as collateral for a bond given by The Curtis Publishing Company to a title company in connection with the sale of the home office building of Curtis in Philadelphia. Curtis has agreed to indemnify the Company for any payment made pursuant thereto.

D. See Note 2 for a contingent liability relating to the purchase of the Curtis circulation and subscription businesses.

E. In 1967, the Company disposed of certain stores for which it remains contingently liable under the leases which have annual rentals of $600,000 for 1969 to 1973; $300,000, 1974 to 1978; and $150,000, 1979 to 1987.

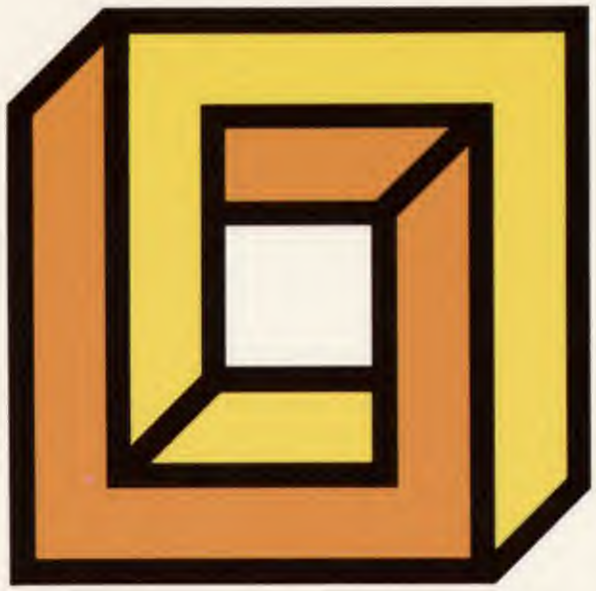
(8) In April, 1968, the Company agreed to make available to The Curtis Publishing Company, up to $5,000,000. At that time, Mr. Martin S. Ackerman, the president of Perfect, became president of Curtis. Thereafter, the Company purchased the circulation and subscription subsidiaries of Curtis as described in Note 2. On August 5, 1968 Curtis purchased certain assets from the circulation and subscription subsidiaries. In consideration for this purchase, the Company agreed to purchase the participations of the banks and Time Incorporated in the Curtis indebtedness and to make additional funds available to Curtis. On October 14, 1968, Curtis owed Perfect $11,600,000 and in order to obtain payment of this indebtedness, Perfect foreclosed on certain assets of Curtis under the bank agreement of December 1, 1963 under which Perfect had advanced funds. Pursuant to a subsequent agreement, when the balance due on the date of foreclosure, plus interest, is recovered, the remaining assets revert to Curtis subject to other claims. Curtis has no further obligation under the loan and accordingly, if the recovery is less than the loan, Perfect will bear the loss.

At December 31, 1968 the balance due Perfect had been reduced to $5,471,559 and the assets held by Perfect until full recovery comprised net uncollected subscription receivables of about $7,000,000, the Jack and Jill magazine and a 50% interest in The Saturday Evening Post Company which owns Holiday and Status magazines.

During 1968, Perfect placed about $700,000 of advertising in magazines of The Curtis Publishing Company and Downe Communications, Inc. with the understanding that there would be no charge made in partial consideration for certain financing and services provided by Perfect to Curtis. This arrangement was approved by the Curtis Board of Directors.

In March, 1969, Mr. Ackerman resigned as President of Curtis.

(9) The Company is the defendant in a number of law suits arising out of its relationships with The Curtis Publishing Company. In the opinion of the management of the Company and its counsel, these law suits have no basis for claims against the Company.

(10) On March 28, 1969, the Board of Directors agreed to consider favorably a consolidation of the Company with Commonwealth United Corporation. The terms of the consolidation have not yet been developed.

Perfect Film & Chemical Corporation: 1968